

## Message Text

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PAGE 01 BUDAPE 00052 01 OF 02 071408Z

43

ACTION XMB-04

INFO OCT-01 EUR-12 ISO-00 EB-07 TRSE-00 OMB-01 AID-05

OPIC-03 SS-15 NSC-05 L-02 STR-01 AGR-05 PA-01 PRS-01

USIA-06 CIAE-00 INR-07 NSAE-00 RSC-01 TAR-01 H-01

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R 071320Z JAN 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 2500

DEPT OF COMMERCE WASHDC

LIMITED OFFICIAL USE SECTION 01 OF 02 BUDAPEST 0052

E.O. 11652: N/A

TAGS: EFIN, ETRD, HU

SUBJ: VISIT OF EXIM BANK PRESIDENT CASEY TO BUDAPEST

STATE PASS EXIM BANK FOR WIGG; PASS TREASURY

1. SUMMARY: DURING BRIEF STAY IN BUDAPEST, EXIM BANK PRESIDENT CASEY HAD CORDIAL MEETINGS WITH FINANCE MINISTER FALUVEGI AND ACTING CHAIRMAN PULAI AND VICE PRESIDENT FEKETE OF NATIONAL BANK. HUNGARIANS EXPRESSED DESIRE TO SUBSTANTIALLY INCREASE PURCHASES OF U.S. PRODUCTS, INDICATED INTEREST IN RECEIVING EXPORT-IMPORT BANK CREDITS, MFN, AND VOICED HOPE THAT IT WOULD BE POSSIBLE TO CONCLUDE TRADE AGREEMENT AT AN EARLY DATE. END SUMMARY

2. MINISTER FALUVEGI BEGAN MEETING WITH CASEY STATING -- IN OBVIOUS REFERENCE TO HUNGARY'S ECONOMIC DIFFICULTIES -- THAT HE HAD JUST BEEN TO A GOVERNMENT MEETING AND WAS IN A PHILOSOPHICAL MOOD. SAYING HE WAS GLAD THAT CASEY HAD COME TO HUNGARY ON HOLIDAY VISIT, HE WISHED AMERICANS WOULD BE AS INTERESTED IN HUNGARY FOR EXPANDED ECONOMIC AND FINANCIAL REASONS AS THEY WERE FOR TOURISM. HUNGARY  
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PAGE 02 BUDAPE 00052 01 OF 02 071408Z

WAS INTERESTED IN "DECISIVE" INCREASE IN ITS ECONOMIC

RELATIONS WITH U.S. AND WANTED A LARGER PROPORTION OF ITS WESTERN PURCHASES TO BE OF U.S. ORIGIN. EXPERIENCES WITH AMERICAN COMPANIES AND EQUIPMENT HAD BEEN HIGHLY FAVORABLE ESPECIALLY IN FIELD OF AGRICULTURAL COMMODITIES. U.S. MACHINERY PURCHASES HAD BEEN RESTRICTED MAINLY TO EUROPEAN SUBSIDIARIES OF U.S. FIRMS, DUE TO LACK OF MFN. THEY WOULD LIKE TO SHIFT MUCH OF THIS DIRECTLY TO U.S. FALUVEGI NOTED NECESSITY EXISTED FOR SUBSTANTIAL MODERNIZATION AND EXPANSION OF HUNGARIAN PRODUCTIVE CAPACITY, MENTIONING ITS COPPER PRODUCTION, DOUBLING ITS ALUMINUM PROCESSING CAPACITY, AND CONSTRUCTING ABOUT A DOZEN NEW HOTELS, (IN ALL OF WHICH AMERICAN CONCERNS ARE INTERESTED). HE STRESSED THAT IT WAS IMPORTANT THAT A TRADE AGREEMENT BE NEGOTIATED EARLY BEFORE HUNGARIAN ENTERPRISES COMMITTED THEMSELVES TO OTHERS FOR DEVELOPMENT PROJECTS OF NEXT 5-YEAR PLAN PERIOD COMMENTING THAT WHEN DIRECTION OF PURCHASES WAS STARTED, IT WAS HARD TO CHANGE.

3. MR. CASEY RECIPROCATED FALUVEGI'S WELCOMING REMARKS AND EXPRESSED U.S. DESIRE ALSO FOR INCREASED ECONOMIC RELATIONS WITH HUNGARY. NOTING HIS CURRENT RESPONSIBILITIES RELATED TO ONE SPECIFIC ASPECT OF THOSE RELATIONS HE SKETCHED IN FOR FALUVEGI CURRENT SITUATION OF EXIM BANK. OBSERVED THAT POLICY DECISIONS ON EXTENSION EXIM TO HUNGARY NOT YET MADE BUT THAT BANK WAS IN POSITION TO OPERATE WITH HUNGARY WHENEVER DECISION WAS TAKEN. SAID BANK MADE LOANS ON PROJECT BASIS, TAKING INTO ACCOUNT CREDIT WORTHINESS OF PROJECT AND COUNTRY AT TIME, AND HAD NO COUNTRY QUOTAS. NOTED INTEREST RATES WERE HIGHER BUT THAT AVAILABILITY SEEMED TO BE MOST IMPORTANT THING AND COMMENTED THAT INCREASED DEMAND AND CONGRESSIONAL LIMITATIONS MEANT THAT FOR FIRST TIME EXIM HAD NOT BEEN ABLE TO FINANCE ALL WORTHY REQUESTS LAST FY AND HAD TO CARRY OVER \$700 MILLION IN PROJECTS. ASKED FALUVEGI HOW GOH HANDLED ITS FOREIGN BORROWING, PARTICULARLY WHETHER THEY USED DEBT SERVICE OR OTHER RATIOS AS GUIDES.

4. STRESSING HUNGARY'S EXCELLENT RECORD OF CREDIT WORTHINESS, FALUVEGI NOTED THAT HUNGARIAN DEBT WAS MODERATE SAYING AT ONE POINT IT EQUALLED 4 MONTHS EXPORTS AND AT LIMITED OFFICIAL USE

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PAGE 03 BUDAPE 00052 01 OF 02 071408Z

ANOTHER THAT IT WAS 40 PERCENT OF TOTAL ANNUAL EXPORTS. DEBT SERVICE WAS APPROX ONE MONTH'S EXPORTS AND THERE WAS NO SHORT TERM DEBT. (FALUVEGI DID NOT STIPULATE IF DEBT WAS FOUR MONTHS' TOTAL EXPORTS WHICH TOTALLED \$4.65 BILLION IN 1973 OR OF HARD CURRENCY EXPORTS WHICH WERE \$1.8 BILLION. WHILE WE ARE INCLINED TO BELIEVE FALUVEGI WAS TALKING ABOUT HARD CURRENCY EXPORTS, WE WILL HAVE TO CLARIFY THIS POINT.) FINMIN SAID HUNGARY WOULD NEED

CONSIDERABLE FOREIGN CREDITS DURING NEXT 5-YEAR PLAN PERIOD, ESTIMATING HUNGARY WOULD BE BORROWING ABOUT \$2 BILLION BETWEEN 1976-80. IMPLIED THAT THESE LOANS WOULD BE DIVIDED EQUALLY BETWEEN EASTERN AND WESTERN SOURCES. SAID THEY WOULD NEED LOANS ON LONGER TERM BASIS (E.G., 5-12 YEARS). HE EXPRESSED SATISFACTION WITH CENTRAL AUTHORITIES HANDLING OF FINANCIAL RELATIONS. ADDED THAT ALL FOREIGN BORROWING WAS MADE BY BANK AND ADDED "WE ARE NOT GOING TO HAVE A YUGOSLAV TYPE SITUATION WHERE INDIVIDUAL ENTERPRISES ARE ABLE TO AMASS SIZABLE DEBT BURDENS." ALSO NOTED THAT ALL LOANS HUNGARY TOOK WERE REALLY GOVERNMENTAL AND WERE GUARANTEED BY STATE EVEN IF DOCUMENT DID NOT SAY SO.

5. IN RESPONSE TO AMBASSADOR'S QUESTION WHETHER HUNGARY WOULD BE FORCED TO SIGNIFICANTLY REDUCE PLANNED PURCHASES OF WESTERN EQUIPMENT AS RESULT OF DETERIORATION IN TERMS OF TRADE AND BALANCE OF TRADE DEFICIT IN 1974, FALUVEGI REPLIED HIS STRESS ON DIFFICULTY OF TRADE DEFICIT IN RECENT PARLIAMENTARY SPEECH HAD BEEN INTENDED AS WARNING SIGNAL TO ENTERPRISES THAT THEY SHOULD PREPARE TO BE MORE CAREFUL WITH THEIR EXPENDITURES. HOWEVER, IT WAS EXPECTED THAT DEFICIT IN HARD-CURRENCY TRADE FOR WHOLE OF 1974 WOULD BE ONLY ABOUT \$150-200 MILLION. WHILE THIS WAS DISAPPOINTING SINCE GOVERNMENT HAD PLANNED FOR SMALL SURPLUS IN HARD-CURRENCY TRADE, IT WAS NOT SIGNIFICANT IN EXTERNAL TERMS AND HUNGARY'S FOREIGN TRADE DEFICIT WAS CONSIDERABLY LESS THAN THAT OF MOST OF HER EAST EUROPEAN NEIGHBORS. THEIR PROBLEM WAS THAT BECAUSE OF HUNGARY'S HEAVY INVOLVEMENT IN INTERNATIONAL TRADE, THEY HAD TO BE SENSITIVE TO ANY CHANGES OF DIRECTION. HENCE THE WARNING. FEKETE OBSERVED THAT DEFICIT WAS COVERED BY 1973 SURPLUS AND LATER THAT 1974 WOULD NOT CAUSE THEM TO REDUCE IMPORTS.

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PAGE 01 BUDAPE 00052 02 OF 02 071418Z

43

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OPIC-03 SS-15 NSC-05 L-02 STR-01 AGR-05 PA-01 PRS-01

USIA-06 CIAE-00 INR-07 NSAE-00 RSC-01 TAR-01 H-01

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LIMITED OFFICIAL USE SECTION 02 OF 02 BUDAPEST 0052

6. IN PRIOR MEETING AT NATIONAL BANK, ITS ACTING CHAIRMAN PULAI POSED AS FIRST ISSUE QUESTION AS TO WHEN "GREEN-LIGHT" WOULD BE GIVEN TO PERMIT EXTENSION OF EXIM FACILITIES AND MFN TO HUNGARY. ALSO WISHED TO KNOW HOW FAST EXIM BANK WOULD BE ABLE TO PROCESS LOAN APPLICATIONS WHEN ITS CREDIT FACILITIES WERE EXTENDED TO HUNGARY. CASEY REPLIED THAT DECISION WHETHER OR NOT TO EXTEND EXIM FACILITY TO HUNGARY WAS NOT WITHIN HIS JURISDICTION BUT RATHER A MATTER WHICH WOULD BE DECIDED UPON BY THE PRESIDENT WITH THE ADVICE OF THE STATE DEPARTMENT. IT WOULD PROBABLY BE DECIDED IN CONNECTION WITH MFN. HOWEVER, WHEN AUTHORITY TO HUNGARY WAS EXTENDED, BANK WOULD PROCESS HUNGARIAN LOAN APPLICATIONS EXPEDITIOUSLY BASING ITS DECISION ON THE SPECIFIC PROJECT IN QUESTION AND HUNGARY'S CREDIT WORTHINESS. AMBASSADOR COMMENTED THAT AS YET HE HAD RECEIVED NO INSTRUCTIONS CONCERNING TIME-TABLE FOR TRADE NEGOTIATIONS BUT EXPECTED THIS EARLY IN 1975. WHEN THESE RECEIVED, WE WOULD BE ABLE TO GIVE GOH INDICATION WHEN MFN NEGOTIATIONS COULD BE EXPECTED.

7. AMBASSADOR THEN ASKED WHETHER HUNGARY REALLY WANTED LIMITED OFFICIAL USE

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PAGE 02 BUDAPE 00052 02 OF 02 071418Z

EXIM ADDING THAT PREVIOUSLY GOH HAD NEVER SPECIFICALLY STATED THAT THEY WERE INTERESTED IN SUCH CREDITS AND THAT EXIM WAS PRIMARILY A DEVICE FOR U.S. EXPORT PROMOTION. FEKETE ANSWERED THAT NATIONAL BANK WOULD BE VERY MUCH INTERESTED IN EXIM WHEN MFN IS GRANTED SINCE THEN IT WILL BE POSSIBLE FOR ENTERPRISES TO SIGNIFICANTLY STEP UP PURCHASES FROM THE U.S. WITHOUT MFN, EXIM CREDITS WERE NOT THAT INTERESTING SINCE HIGH HUNGARIAN RECIPROCAL TARIFF PREVENTED LOCAL ENTERPRISES FROM BUYING MOST U.S. MANUFACTURES. TO DATE SIGNIFICANT TRADE HAS ONLY BEEN CARRIED OUT IN THOSE AREAS SUCH AS AGRICULTURAL MACHINERY AND COMMODITIES WHERE GOH HAD GRANTED WAIVER OF PENALTY TARIFF FOR HUNGARIAN IMPORTERS.

8. PULAI ASKED CHAIRMAN CASEY ABOUT LIMITATIONS PLACED BY CONGRESS ON EXIM BANK'S LENDING ACTIVITIES CITING \$300 MILLION CEILING FOR LOANS TO USSR, ASKING WHETHER SPECIFIC

LIMITAT MNYUALSO PLACED ON GOH. CASEY REPLIED THAT SOVIET UNION WAS SPECIFIC CASE AND NO OTHER SUCH LIMITS EXISTED FOR OTHER COUNTRIES, WHERE PROJECT APPROACH PURSUED. EVEN \$300 MILLION FIGURE FOR USSR WAS NOT STRICT CEILING BUT RATHER LEVEL SET BY CONGRESS TO ENABLE IT TO GIVE IT A VOICE IN DDISION ON ANY LEVEL OF LOANS ABOVE THAT TO SOVIETS. WHEN \$300 MILLION LOAN LIMIT REACHED, BANK WOULD BE ABLE TO ASK CONGRESS FOR SUPPLEMENTARY AUTHORIZATION, ALTHOUGH THESE WOULD HAVE TO BE JUSTIFIED.

9. COMMENT: FRIENDLY RECEPTION GIVEN TO CHAIRMAN CASEXW ON DAY BEFORE NEW YEARS WAS INDICATION OF STRONG HUNGARIAN INTEREST IN OBTAINING EXIM CREDITS. FALUVEGI'S COMMENTS THAT HUNGARIANS ARE BORROWING \$2 BILLION DURING NEXT 5-YEAR PLAN PERIOD ANOTHER INDICATION OF GOH INTENTION TO VIGOROUSLY STEP UP SEARCH FOR CREDITS FROM ALL POSSIBLE SOURCES EAST AND WEST. WE NOTE, HOWEVER, THAT FALUVEGI'S \$2 BILLION ESTIMATE SIGNIFICANTLY LESS THAN \$3 BILLION FIGURE WHICH HAD FREQUENTLY BEEN CITED BY FOREIGN TRADE MINISTER BIRO LAST YEAR. FINANCE MINISTER'S REMARKS ON HIS "PHILOSOPHICAL" ATTITUDE AFTER ATTENDING A GOVERNMENT MEETING WAS ALSO INTERESTING. WE SPECULATE THAT EITHER THE GENERAL ECONOMIC PICTURE LOOKS DIFFICULT OR THEY MIGHT HAVE FOUND THEIR TALKS WITH SOVIETS ON OIL DELIVERIES LIMITED OFFICIAL USE

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PAGE 03 BUDAPE 00052 02 OF 02 071418Z

AND PRICES FOR NEXT 5-YEAR PLAN DURING RECENT VISIT OF GOSPLAN CHAIRMAN BAIBAKOV RATHER SOBERING.  
PEDERSEN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CREDIT, MEETINGS, COMMUNIST COUNTRIES TRADE  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 07 JAN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975BUDAPE00052  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750006-0294  
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**Office:** ACTION XMB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 03 JUN 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03 JUN 2003 by ElyME>; APPROVED <04 JUN 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** VISIT OF EXIM BANK PRESIDENT CASEY TO BUDAPEST STATE PASS EXIM BANK FOR WIGG; PASS TREASURY  
**TAGS:** EFIN, ETRD, HU, US, XMB, (CASEY), (FALUVEGI)  
**To:** STATE COM  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006